

Whistle Blowing Disclosure: Evidence from Emerging Market

Abstract: This article investigates factors which drive firms to disclose whistle blowing policies, especially when disclosing such policies is not mandatory by law in one of the emerging markets i.e. India. Results suggest that firms which have high promoters' shareholding display whistle blowing policies to lesser extent. Furthermore, variation in disclosure of policies is positively and significantly related to percentage of independent directors and creation of special positions like chief ethical officer or ethical counselor. We analyzed 200 Bombay stock exchange listed firms in India to conduct the study.

Key words: whistle blowing policy, promoters' shareholding, independent director, chief ethical officer, India.

With advent of liberalization, privatization and globalization, corporate India has gained worldwide popularity. Unfortunately, where Indian firms have grown aggressively, crossing national borders, the unethical conduct of firms has also been on rise. Satyam collapse, which is more commonly known as collapse of Indian Enron (Economist, 2009) followed by fraudulent act of one of the most reputed pharmaceutical company in India i.e. Ranbaxy, has given shocking waves across the globe. Undoubtedly, whistle blowing is one of the most effective mechanisms to combat corporate fraud (ACFE, 2010). Unfortunately, Indian governance law unlike Sarbanes Oxley act, does not makes it mandatory for firms to implement whistle blowing policy and if firms do so, it is completely voluntarily. Clause 49 of SEBI merely states "listed firms may have whistle blowing policy". Thus, it is mere a recommendation and not mandating. Ernst and Young survey shows that most employees are aware of the fraudulent acts going in the company but they don't blow whistle as they are not sure about their protection (Kaplan et. al, 2010). Thus it is vital that firms have formal whistle blowing procedures and systems in place. Fraudulent activities are less in firms which have effective policies and practices in place (Calderon-Cuadrado et al, 2009). Since, it is not mandatory by law, firms in India differ from one another in terms of having effective whistle blowing practices. Unlike firms in developed countries, each Indian firm differ in the aspect of who frames whistle blowing policy, who reports to whom in terms of detecting the fraud and what type of security measures would be provided to the

employee and if at all, those safety measures would be provided. Various firm level factors would influence the level and quality of internal reporting and seriousness of whistle blowing policy. Generally firms' whistle blowing policy and code of ethics goes hand in hand (Brown, 2009). Yet overall, there is inconsistencies and variation in the effectiveness of whistle blowing policies in the Indian firms. This makes it vital to investigate as to what drives Indian firms to frame whistle blowing policy, which could help in stopping fraudulent activities in initial stages itself.

We focus on those cross-sectional firm level traits, which could influence corporate disclosure policy regarding whistle blowing. We focus on three such firm level traits to test our model. First is level of promoters' shareholding. Indian business environment is peculiar as it is not only run by mainly promoters and family members but also they have major shareholding exceeding 50% many a times, unlike family business in other countries. This aspect may particularly influence framing of policies which can make fraud reporting easier. Second factor that we focus on, is percentage of independent directors. Independent directors are the most vital aspect of framing corporate governance disclosure policies; hence we expect them to play a significant role in framing whistle blowing policy as well. Our third determinant is whether a person holds a designated position in the organization to look after ethical activities of the firm. This could be Chief Ethical Officer or Chief compliance officer. This is because, when employees hold such positions, they are duty bound to look after ethical disclosure activities, which could then raise chances of framing explicit whistle blowing policies. We find that firms' shareholding pattern, number of independent and special positions, influence the effectiveness of whistle blowing policy.

This article contributes to the field of corporate governance and business ethics by identifying factors which would influence use of whistle blowing systems and policies by the company. Although in developed countries, this aspect is mandated by law, in emerging markets like India, firms may voluntarily abide by this recommendation. We specifically focus on firm level factors which drives good whistle blowing disclosure policies. Although firm level factors have been investigated with respect to whistle blowing policy (Lee and Fargher, 2013), role of promoters, independent directors and special positions have not been investigated. Given the weak

institutional context of emerging markets (Khanna and Palepu, 2000), these aspects become vital to be investigated.

The article is organized as follows: We first list prior research in the field of whistle blowing. Next we develop the model and state the hypothesis. This is followed by data and methodology section and finally we present results and conclusions.

Theory and Hypothesis

Many aspects of whistle blowing have been investigated in recent past. The issues ranged from characteristics of whistle blowers to consequences of whistle blowing (Bowen et. al, 2010; Dyck et. al, 2010; Miceli et. al, 2008). We focus on characteristics of organizations and how they impact effectiveness of whistle blowing policy.

Although, whistle blowing has been defined in literature in many ways (Jubb, 1999), the most commonly accepted definition is “the disclosure by organization members (former or current) of illegal, immoral, or illegitimate practices under the control of their employers, to persons or organizations that may be able to effect action (Near and Miceli 1985, p. 4). If implemented appropriately, whistle blowing policy can help in timely detection of fraud, correct the wrongdoing before it gets too late and furthermore, minimize the loss and cost incurred due to fraud (Chung et. al, 2004). Companies by having strong and strict internal reporting mechanisms can also avoid dent in their reputation if such frauds are publicized due to ineffective fraudulent detecting mechanisms within the organizations. It has been found that companies do differ in the transparency and depth of disclosure of their code of conduct and whistle blowing policy (Singh et. al, 2005; Hassink et. al, 2007). Hassink for example, investigated top 56 European firms and found that most firms encouraged employees to report breach of code of conduct or policies or law or regulations. Although companies did not disclose how whistle blowers would be treated but they laid down norms regarding confidentiality of informer and permission of anonymous reporting.

Factors affecting whistle blowing policy disclosures

Extant studies have shown that reporting intentions of employees increases when firms have appropriate code of conduct and ethical policies in place (Schwartz, 2001). Somers (2001) reported that firms with ethical codes and policies in place experienced less wrong doings. Barnett et al (1993) on the other hand found that employees disclosed more wrong doings when transparent and explicit code of conduct and internal policies were in place. Employees also felt that they behaved more ethically apart from reporting misconducts when organizations had explicit and transparent disclosure policies (Adams et. al, 2001). In general, frequency and extent of whistle blowing by employees depends on the level of transparency and explicitness of the whistle blowing policy laid down by firms. Given that it is not mandatory for Indian firms to lay down such policies, it is vital to investigate characteristics of firms which drive them to frame such policies. Extant literature has focused on macro environmental variables like legal environment and economic environment of the firm like size and capital intensity of the firm, to explain variation in quality of disclosure policy (Clarkson et. al, 2006; Holderweb et. al, 2008; Lee and Fargher, 2013). Amongst macro environmental factors, national culture of the country is most studied and requires special description. National culture plays a significant role in formulation of whistle blowing policies in a country. Generally culture enables individuals to interpret the world (Chiu and Hong, 2007). Culture implies shared way of thinking by a particular community, which then influences individuals' value and important decisions (Nolan, 2002). Several empirical investigations have examined impact of national culture on whistle blowing. For example, amongst cross cultural studies it has been found that French executives were less interested in reporting questionable acts compared to Norway and US executives (Schultz et. al, 1993). Similarly Patel (2003) also reported that Australian executives were more likely to involve in whistle blowing compared to Indian Counterparts. This happened as whistle blowing was more active in countries with individualistic societies. Thus, in USA and Australia the phenomenon was more prevalent. Miceli et. al (2008) also suggested that whistle blowing is going to be less active in collectivist societies. On Hofstede dimensions, India is a collectivistic country (Chadda, 2013). This is also one of the reasons as to why whistle blowing is weak in India.

The most peculiar trait of Indian business system is existence of business groups and family owned business. Even today, majority of the shares of listed companies are owned by family members. Although, in India as the latest survey shows that seven out of ten best performing stocks are those of family owned firms, yet family owned firms have shown around 5% erosion in the market capitalization compared to professionally managed firms, where a firm does not has a dominant single shareholder (Business Standard, 2013). For example, Shareholders of Reliance Industries lost 40% in last five years, whereas ITC (Indian Tobacco Company, a professionally managed firm) reported a growth of more than 200% in its stock price. Similarly, minority shareholders were found to be more respected in professionally managed firms by virtue of having appropriate corporate governance code. Due to these peculiar features, professionalism and focus on shareholders' wealth still lacks amongst in majority of Indian corporate, and consequently, the firms shows least interest in framing whistle blowing policies. In the case of Ranbaxy, the founders had the maximum shareholding and whistle blowers had to report to external agencies rather to stop the fraud in the organization. In India, corporate law is weak resulting in institutional voids (Khanna and Palepu, 2000), hence less transparent practices. Thus, when legal framework is not at place, encouragement of whistle blowing can be least expected. This is one of the reasons why, instances of whistle blowing have been few in India. Hardly two-three cases has been notified in the past few years. This is not the case with multinational companies. They have clear rules and policies describing how cases should be reported and handled.

We thus discuss role of family owned business, nature of independent directors and existence of special positions to explain variation in quality of disclosure of whistle blowing policy. Independent directors are generally associated with good governance practices (Kampbel, 2012). Thus, they would ensure that effective whistle blowing policies are in place. If firms are really committed towards reporting of fraudulent activities, then for day to day concerns and reports of employees they would hire special officers like Ombudsperson or Chief Ethical Officer who would ensure ethical compliances of business practices. Person holding such position would then encourage fraudulent reporting by explicitly laying the policies regarding whistle blowing. Given the significance of these drivers for fraudulent reporting we now proceed towards hypothesis development.

High Promoter Shareholding

Terms like promoter controlling, ownership concentration, founding family control have been interchangeably used in the literature. Broadly, all these terms refer to firms, where family members or their relatives have significant stake in the company (McConaughy et. al, 1998). In economies, where corporate ownership is highly concentrated in the hands of promoters of a firm, minority investors interests are only weakly protected (Claessens et. al, 2000). Rather few studies also reflect that as corporate ownership concentration increases, strength of corporate governance practices weakens (Yen and Andre, 2007). For example, promoters may take out assets and profits out of the firm commonly referred to as tunneling effect), to invest in loss making firms, affiliated with same promoter (Claessens et. al, 2006; George and Kabir, 2008), rather than using them in the interest of minority shareholders (Chakrabarti et. al, 2008). Similarly, they may manipulate earnings accruals as well (Kim and Yi, 2010). Furthermore, level of disclosure and transparency in reporting practices is also less, as promoters prefer to keep minorities in dark (Aksu and Kosedag, 2006) and even level of public announcements is low (Laidroo, 2009). Whistle Blowing represents one of the mechanisms through which good corporate governance practices can be enforced (Rachagan and Kalaithasan, 2013). Also it discloses wrong doings of the company to broader segment of stakeholders, something which family firms or firms with high promoter shareholding will not prefer. Corporate governance mechanisms like whistle blowing enhances managements' accountability towards shareholders (Bear et. al, 2010). But when family members hold majority stake, they become answerable to only minority investors. Thus, they do not prefer to have policies like whistle blowing which makes them answerable to minority shareholders and hence have poor formulation and implementation of such policies (Claessens and Yurtoglu, 2013).

This kind of dominant shareholding also leads to deterioration in professional management of the organization (Stewart and Hitt, 2012), as promoters tend to employ their close relatives and friends in the organization, indulge in political activities and thus destroy work culture and also welfare of the external shareholders (Hadani, 2007; Kimber and Lipton, 2005; Martin and Sanz, 2006). Furthermore, in highly ownership concentrated organizations, most of the times senior management themselves would be involved in unfair activities. For examples, because of majority stake they themselves would appoint board members, sell products at below market price, to their own sister concerns. Family firms firstly would never like voice to be raised in these matters, and even if employee raises voice, hearing can be least expected as even board members are elected by family members. Thus, policies like whistle blowing would not be formulated in firms with high promoter shareholding. Though in emerging markets like India,

corporate governance policies are made to protect interest of minority shareholders, they have been found to be least effective (Claessens and Yurtoglu, 2013). Gibson (2003) also reported that emerging market firms, which generally also suffer from institutional voids have poor governance practices in family owned firms. As far as whistle blowing is concerned, SEBI did not mandated firms to formulate this policy and since blowing whistle, could highlight faulty practices in organizations, which may have adverse impact on customers and shareholders, this vital component of corporate governance is hardly implemented in emerging markets like (Hinde, 1997) In terms of transparency of corporate governance practices as well, it has been found that business group affiliated firms in India are less transparent compared to stand alone firms (Kuan et. al, 2011; Pattnaik et. al, 2011). Thus, one could not expect better transparency for whistle blowing. Probably, these are the reasons why market valuation of firms with high promoter shareholding is low (Lien and Li, 2013; Pant and Patnaik, 2007; Selarka, 2005; Singh and Gaur, 2009). Although, family ownership of business is prevalent in developed economies as well, weak institutional environment, makes this issue more challenging in emerging markets like India (Peng and Jiang, 2009; Yang and Su, 2013). We thus hypothesize:

H1: Whistle blowing disclosure is negatively associated with promoters' shareholding

Board of directors

Boards of directors are appointed by shareholders. It has been found that when politicians hire regulators, they are often under pressure to ignore whistle blowing in the cases which pertains to the wrong doing of politicians (Nielson, 2013). Similarly, if promoters by virtue of having majority shareholding appoint board of directors, then directors may often oversee the whistle blowing policy, as they act as agents not on behalf of shareholders but promoters themselves. Thus, directors by virtue of having social ties with promoters might work under their influence (Hoitash, 2010). Yet independent directors, unlike executive directors, demand more objectivity and depth in the availability of management control information and their information seeking behavior is more productive as well (Reheual and Jorissen, 2010). Since independent directors

largely depend upon Management Information Systems reports and other information provided by the staff to make effective monitoring and advisory decisions, they encourage employees to report fraudulent activities within the organization. For this they enforce explicit statements of whistle blowing policy. Furthermore, management due its focus on day to day functioning and profit earning focus would abide by law only to the minimal extent possible. Independent board of directors would drive such voluntary activities of disclosure to a large extent (Kampel, 2012). Furthermore, it has been seen that firms with large percentage of independent directors have more ethical programs compared to counterparts (Felo, 2001). Since whistle blowing is also one of the ethical components, we can predict that independent directors would promote explicit description of policy. Thus, overall independent directors would call for more disclosure, also leading to overall enhancement in market value of the firm (Eng and Mak, 2005), especially in emerging markets (Filatotchev et. al, 2005; Jackling and Johl, 2009; Sarkar and Sarkar, 2003).. Hence, we hypothesize

H2: Whistle blowing policy disclosure is positively and significantly associated with percentage of independent directors on board

Special Positions

The term “ethics officer” (EO) refers to the person who is responsible for overseeing company’s operations, its compliance and business conduct efforts in ethical manner. Chief Ethical Officer is generally appointed at vice president and senior vice president level. Apart from overseeing ethical activities, person holding this designation is generally also responsible for general administration and human resource management activities (Hoffman and Rowe, 2007). Firms which are genuinely concerned about ethical aspects of business, not only employs ethical or compliance officer but also empowers them. Person holding special position can then ensure framing and implementation of appropriate policies, as a part and parcel of its job. Furthermore, hiring of Ethical officers also signals that firm uses dedicated channels to report mis-conduct, consequently employees are also motivated to report the fraud. Thus, dedicated personal for this job not only drive explicit and in depth framing of disclosure policy but also ensure its independent evaluation when fraud is detected (Sumanshi, 2012). We thus hypothesize:

H3 Hiring of dedicated personal for ethics, is positively and significantly associated with disclosure of whistle blowing policy

Data and Methods

We selected top 200 Bombay Stock Exchange (BSE) listed firms of India. BSE is the national stock exchange of India and is equivalent to NASDAQ of USA. We assessed the quality of whistle blowing policies in corporate based on the extent to which guidelines provided by SEBI (Indian equivalent of SEC) in Clause 49 was followed by the firms. The checklist along with percentage of companies complying with that checklist is provided in Table 1. The checklist had 7 disclosure items. For example, according to the recommendations of SEBI, the existence of the whistle blowing mechanisms should be appropriately communicated to employees by virtue of internal circulars etc. hence we have included that item in the check list. Similarly, the recommendation outlined the need of providing adequate safeguard to the employees who openly disclose the fraud, so we have incorporated that item as well in the checklist. It should be noted that compared to global standards, Indian firms have comparatively lesser interest for reasons explained above. Furthermore, the disclosure norms by SEBI in India consist of only 7 items, compared to several items of other countries. For example, Australian Council recommends 18 items of whistle blowing policies like informing the whistle blower on commencement of investigation, its progress and its outcome. However, such norms are absent in India. Similarly, US legislation makes it mandatory for companies to establish sound whistle blowing policies. In USA also the onus of implementing whistle blowing policies lies in the hands of audit committee. Further, US legislation like Indian recommendation legislation provides protection to whistle blowers, but in addition to protection, it also provides incentives to encourage whistle blowingⁱ.

We searched code of conduct, corporate governance section of the annual reports and various other sections of the website of the selected firms to analyze if the recommendations given by SEBI were adopted or not adopted by the firm. For example, we found that sometimes whistle blowing policies were given in the career section of the website. Ranbaxy is one such company. Thus, if the checklist item was present in the annual report or ethical conduct policy of the firm, or any other section of website, we coded it as 1, else 0. Since, this required content analysis, we

used inter-coder reliability to check if items have been ticked appropriately. For this purpose, 20% of the firms were coded by two coders independently and the reliability exceeded 90%. We did not assign any weights to the items in checklist and calculated the total score of the quality of disclosure by simply adding up all the disclosures made. So the minimum score that a company could get was zero and the maximum score was 7. More the score better was the disclosure policy of the firm. This frequency distribution gives a rough estimate of standard and quality of disclosure offered by listed companies in India.

Operationalization of independent variables

Promoters Shareholding: Information on this construct was obtained from Prowess, a Centre of Monitoring of Indian Economy (CMIE) database.

Percentage of Independent Directors: Information on independent directors was obtained from “Directors database”. This database was created as an initiative of BSE by Prime Database of India.

Special Position: We searched for special position of Ethics officer on company’s web site and annual reports. Various terms like Ethical Counselor, Ombudsperson, and Chief Ethical Officer etc. were found to be associated with this position. We again conducted content analysis on 20% of the sample firms and found reliability exceeding 95%.

Control Variables

Following the approach of Lee and Fargher, 2013, we controlled for size of the firm, levels of inventory and Geographic dispersion. We used Return on Assets to control for size of the firm. Geographic Dispersion, was measured as export intensity i.e. Exports to sales ratio. Information on the three variables was again obtained from Prowess, a CMIE database. Internal control risk is high in large sized firms, having high inventory. Thus, chances of mis-reporting and fraudulent activities could be more. Thus, it was vital to control for size and levels of inventory. Furthermore, in geographically dispersed firms internal monitoring becomes even more difficult; consequently the significance of whistle blowing could even become more, if a firm wants to obtain correct information reports. We thus controlled for the three variables.

Results

Table 2 gives descriptive statistics for the sample in terms of mean, median, minimum and maximum value. The mean whistle blowing score is 2.5 and median is 3. Thus the overall disclosure scores is not even average, implying that most firms are not following recommendations made by SEBI and formulation of policies is only at surface level, as it is not mandated by law. Average promoter shareholding in Indian companies is highly dominant with 50.1% as the average holding. Table 3 gives correlation statistics. Disclosure scores are found to be significantly and negatively correlated with % of Promoter shareholding.

Tobit Regression Analysis

As the whistle blowing scores vary between two limits, we use Tobit Regression instead of multiple linear regressions. Results of the analysis are presented in Table 4. Pseudo R^2 is 0.125, with control variables. We enter our independent variables in step 2 and find that Pseudo R^2 value rises to 0.28. All of the independent variables were found to be significant in the model. Our first hypothesis stated that promoters' holding is significantly and negatively associated with whistle blowing disclosure policy. We find evidence in support of this hypothesis ($\beta = -0.385$, $p < 0.01$). According to second hypothesis, proportion of independent directors is positively and significantly associated with disclosure policy. Since beta coefficient is significant at 5% ($\beta = 0.25$), we find evidence in support of second hypothesis as well. Similarly, significance of beta coefficient of special ethical officer position at 5% indicates that, when special ethical officers are appointed, transparent disclosure of policy also increases ($\beta = 3.15$).

Sensitivity analysis of disclosure scores

We used an alternative approach of measuring disclosure scores. According to this approach, we classified scores as high and low score, based on median disclosure score, which was 3 in this case. We thus coded scores above 3 as one, indicating high disclosure scores and coded scores below 3 as zero, indicating low disclosure scores. All the beta coefficients remained significant and their value especially for board of directors increased to a certain extent. Earlier beta coefficient for proportion of independent directors was 0.25, which rose to 0.46. Similarly, promoter sharing holding impact also rose to -0.501.

Conclusion

In this paper we discussed the level and quality of disclosures in whistle blowing policy. For effective implementation and to encourage employees to blow whistle it is vital that norms and codes of whistle blowing are clearly and explicitly laid down. Though mere clarity of statements would not automatically ensure effective implementation of the policy, yet it is a precursor of the same (Barnett et. al, 1993). We focused on those typical characteristics of Indian Business, which makes it unique and creates barriers to effective corporate governance. These characteristics were dominant shareholding by family members, lesser number of independent directors and independent authority responsible for taking action against frauds. We found that disclosure was less when promoters' holding was high in the organization, i.e. it was significantly but negatively associated with promoters' holding in the organization. Similarly, disclosure policy was positively and significantly associated with percentage of independent directors. Furthermore, when reporting authority for whistle blowing was supervisor or some other senior in management, then disclosure was less, compared to when special position was created to look after this issue. Broadly, our study suggests that corporate governance environment of a firm influences the quality of policy making and implementation regarding whistle blowing. Lesser the concentrated shareholding of promoters in the organization, more explicit and detailed is the framing of whistle blowing policy. Good corporate governance environment however is only the necessary but not sufficient condition for effective implementation of whistle blowing policy.

Limitations of the study

We have taken sample of listed firms only, thus the determinants of whistle blowing policy disclosure cannot be generalized to private and unlisted firms. Furthermore, the results cannot be generalized in the context of developed countries as well. This is because; first the depth of recommendations made by SEC and other such authorities is vast compared to emerging markets like India. For example, in Australia itself, legislation requires companies to disclose whistle blowing policy on 18 aspects, whereas in case of India it is only 7. Thus, our determinants work well in the weak institutional context. Secondly, although family business dominates developed

countries also, but the extent of dominant shareholding is far less compared to India, where it almost touches 50% on an average. Furthermore, our determinants only highlight effective formulation of the policy and not its implementation. Although transparent whistle blowing policy is vital for effective implementation of the policy, it is just one of the antecedents of effective implementation and other factors could also play vital role.

Directions of future research

Representation of disclosure policy could be an eye wash if it is not implemented properly (Hassink et. al, 2007). Policy is credible only if its implementation is visible. Dedicated hotline service is a signal of firms' effective implementation of whistle blowing policy (Lee and Fargher, 2011). This reflects management's seriousness and commitment towards detecting fraudulent activities in the company using whistle blowing. Usage of hotlines, is a signal of managements' commitment and seriousness towards whistle blowing policy for two reasons. First, establishing a hotline is an expensive affair and management would not incur cost into it, if it is not serious about such policy. Future research can focus on determinants of effective implementation of whistle blowing policy.

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Table 1 Disclosure items as recommended by SEBI and % of times those disclosures are made by companies

Disclosure items	% of times disclosed (n = 200)
Personnel who observe an unethical or improper practice (not necessarily a violation of law) shall be able to approach the audit committee without necessarily informing their supervisors.	34.6
Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars, etc.	59.1
The employment and other personnel policies of the company shall contain provisions protecting "whistle blowers" from unfair termination and other unfair prejudicial employment practices.	76.8
Company shall annually affirm that it has not denied any personnel access to the audit committee of the company (in respect of matters involving alleged misconduct)	18.07
Such affirmation shall form a part of the Board report on Corporate Governance that is required to be prepared and submitted together with the annual report.	79.6
The mechanism must also provide, where senior management is involved,	24.3

direct access to the Chairman of the Audit Committee.	
Audit Committee periodically reviews existence and functioning of mechanisms	18.07

Source: <http://www.sebi.gov.in/commreport/clause49.html>

Table 2 Descriptive Statistics

	Mean	S.D	Median	Minimum	Maximum
Whistle Blowing Score	2.5	0.98	3	1	5
Promoter shareholding	50.1	10.2	51	18	65
% of independent director	49.8	13.1	40	0.31	0.74
Special Position	0.384	0.52	0	0	1
ROA	0.192	2.1	0.07	-7.1	20.1
Inventory/ Sales	10.125	6.01	14.5	0	22.87
Export/ Sales	11.44	7.25	12.01	4.89	23.56

Table 3 Correlation Matrix

	1	2	3	4	5	6	7
1. Whistle Blowing score	1						
2. Promoter shareholding	-0.45***	1					
3. % of independent directors	0.371***	0.105	1				
4. special position	0.25**	-0.162*	0.121	1			
5. ROA	0.115	0.107	0.14*	0.072	1		
Inven/Sales	0.132*	0.12	0.082	0.115	0.131*	1	
7. Export/ Sales	0.106	0.105	0.109	0.064	0.098	0.114	1

Table 4 Tobit Regression Results

	Coeff	S.E	Coeff	S.E
Promoter shareholding			-0.385***	0.207
% of independent direct			0.254**	108
Special Officers			3.15*	0.68
ROA	0.015	0.01	0.016	0.02
Invent/ Sales	0.24	0.19	0.24	0.18
Export/ sales	0.26**	0.17	0.25**	0.16
-2Log likelihood	235.25		279.75	
Psuedo R2	0.125		0.286	

Appendix A

- i. Personnel who observe an unethical or improper practice (not necessarily a violation of law) shall be able to approach the audit committee without necessarily informing their supervisors.

The policy recommended by SEBI regarding whistle blowing highlights that employees should be allowed to directly access audit committee members.

- ii. Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars, etc.

SEBI guideline further indicate that mere existence of policies in companies is not sufficient, they should be communicated as well to employees through means like internal circulars. This is vital because if employees are not aware about such policies, they won't be able to raise voice against faulty acts in the company.

- iii. The employment and other personnel policies of the company shall contain provisions protecting "whistle blowers" from unfair termination and other unfair prejudicial employment practices.

Further SEBI recommends that to raise the confidence in the policy and procedure, it is vital that unfair unemployment practices are not endorsed by the company. For this it is vital that whistle blowing policies assures no unfair treatment of employees, when they blow whistles. Hence, recommendation of above mentioned policy.

- iv. Company shall annually affirm that it has not denied any personnel access to the audit committee of the company (in respect of matters involving alleged misconduct).

Next SEBI recommends that an employee should not be denied access to audit committee even if employee does not have proof for misconduct. This is because; committee members when informed of misconduct can search for evidences. The onus of producing evidences should not be in hands of employees as in many cases, junior employees may not have sufficient proof but can only guide about misconduct.

- v. Such affirmation shall form a part of the Board report on Corporate Governance that is required to be prepared and submitted together with the annual report.

Since, whistle blowing is a corporate governance issue, SEBI recommends that it should be present in corporate governance report and hence should ultimately reach investors as well through annual reports.

vi The mechanism must also provide, where senior management is involved, direct access to the Chairman of the Audit Committee.

Senior management may have some influence over the audit committee members. That is why in cases where senior management is involved in fraud, SEBI recommends that employee should have direct access to Chairman of Audit committee, instead of only committee members.

Vii The Audit Committee must periodically review the existence and functioning of the mechanism.

Based on the problems faced in reporting or following up the whistle blowers and defaulters, SEBI suggests that firms should periodically review and update their policies. External factors like change in government policies also may play a vital role in this.

ⁱ http://en.wikipedia.org/wiki/Whistleblower#United_States